(7) (7) (6)

Nos. 86-495, 86-624 and 86-625

In the Supreme Court of the United States

OCTOBER TERM, 1986

K MART CORPORATION, PETITIONER

v.

CARTIER, INC., ET AL.

47TH STREET PHOTO, INC., PETITIONER

v.

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, ET AL.

UNITED STATES OF AMERICA, ET AL., PETITIONERS

v.

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, ET AL.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

BRIEF FOR THE FEDERAL PETITIONERS

CHARLES FRIED
Solicitor General

RICHARD K. WILLARD
Assistant Attorney General

LOUIS R. COHEN
Deputy Solicitor General

JAMES M. SPEARS
Deputy Assistant Attorney General

JEFFREY P. MINEAR
Assistant to the Solicitor General

DAVID M. COHEN
VELTA A. MELNBRENCIS
ROBERT V. ZENER
ROBERT K. RASMUSSEN
Attorneys

Department of Justice
Washington, D.C. 20530
(202) 633-2217

ROBERT M. KIMMITT
General Counsel

LESLIE A. HULSE
MICHAEL LEVITIN
Attorneys

Department of the Treasury
Washington, D.C. 20220

MICHAEL SCHMITZ
Chief Counsel

ALFONSO ROBLES
Attorney

United States Customs Service
Washington, D.C. 20229

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QUESTION PRESENTED

Section 526 of the Hawley-Smoot Tariff Act of 1930, 19 U.S.C. 1526, restricts the unauthorized importation of foreign merchandise bearing a trademark that is registered in the United States Patent and Trademark Office and owned by a United States citizen, corporation, or association. The question presented in this case is whether a Customs Service regulation is valid which permits the importation of foreign merchandise bearing a trademark identical to a U.S. registered trademark when (1) the foreign and U.S. trademarks are owned by the same person; (2) the foreign and U.S. trademark owners are subject to common ownership or control; or (3) the trademark was applied under authorization of the U.S. trademark owner.

PARTIES TO THE PROCEEDING

The petitioners are K mart Corporation (No. 86-495); 47th Street Photo, Inc. (No. 86-624); and the United States of America, James A. Baker III, Secretary of the Treasury, and William von Raab, Commissioner of Customs (No. 86-625). The respondents in each of the three consolidated cases are Cartier, Inc., Charles of the Ritz Group, Ltd., and Coalition to Preserve the Integrity of American Trademarks (COPIAT).*

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* COPIAT is a non-profit organization composed of the following members: AC & R Advertising, Inc., Alfin Fragrances, Inc., American Cyanamid Company/Jacqueline Cochran, American Watch Association, Auto-Time, Avon Products, Inc., Baccarat, Inc., Bercut-Vandervoort & Co., Brielle Galleries, Brown & Company, Inc., Calvin Klein Cosmetics Corp., Canon U.S.A., Inc., Carl Zeiss, Inc., Cartier, Inc., Charles of the Ritz Group, Ltd., Citizen Watch Company of America, Inc., Colonia, Inc., Computer Retail Trade Association, Cosmair, Inc., Dennis Time Company, Dial Corporation/Greyhound Corp., Diodon, Inc., Distilled Spirits Council of the U.S., Inc., Duracell, Inc., Electronic Industries Association/Consumer Electronics Group, E. Leitz, Inc., Estee Lauder, Inc., Giorgio, Inc., Perfume Division, G-K-G, Inc., G.M.I. Photographic, Inc., Halston Fragrances, Inc., Joseph E. Seagram & Sons, Inc., Maier & Berkele, Mimco, Minolta Corporation, National Association of Beverage Importers, Inc., Nikon, Inc., North American Watch Corporation, NETCO, Omichron Corporation, P. Robertet, Inc., Paco Rabanne Parfums, Parfums Givenchy, Inc., Parfums Stern, Inc., Parfums Worth Corp., Pentax Corporation, PFW, Division of Hercules, Inc., Photographic Manufacturers and Distributors Association, Inc., Photographic Trade News, Polaris Optics, Procter & Gamble Company, Revlon, Inc., Richardson-Vicks, Inc., Schneider Corporation of America, Seiko Time Corporation/Hattori Corporation of America, Sinar Bron, Inc., Sony Corporation of America, Stanhill Enterprises, Inc., Texchron, Inc., Tokina Optical Corporation, Victor Hasselblad, Inc., Warner Cosmetics Incorporated, Weil Ceramics & Glass, Inc., and The Wilkes Group, Inc.

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OPINIONS BELOW

The opinion of the court of appeals (Pet. App. 1a-32a [1]) is reported at 790 F.2d 903. The opinion of the district court (Pet. App. 34a-50a) is reported at 598 F. Supp. 844.

JURISDICTION

The judgment of the court of appeals (Pet. App. 51a) was entered on May 6, 1986. Petitions for rehearing were denied on July 18, 1986 (Pet. App. 53a). The United States' petition for a writ of certiorari (No. 86-625) was filed on October 16, 1986, and was granted on December 8, 1986. The jurisdiction of this Court rests on 28 U.S.C. 1254(1).[2]

STATUTE AND REGULATION INVOLVED

The relevant statute and regulation are reproduced in the Addendum to this brief.

STATEMENT

A. Introduction

The Fordney-McCumber Tariff Act of 1922, ch. 356, 42 Stat. 858 *et seq.* (the 1922 Tariff Act) and the Hawley-Smoot Tariff Act of 1930, ch. 497, 46 Stat. 590 *et seq.* (the 1930 Tariff Act) are best known for their sweeping revision of U.S. policy on tariffs and trade.[3] This case concerns a little noticed non-tariff provision of those statutes, added as a floor amendment to the 1922 Tariff Act (see § 526, 42 Stat. 975), reenacted as Sec-

[1] "Pet. App." refers to the appendix to the government's petition for a writ of certiorari (No. 86-625).

[2] This Court also granted the petitions in No. 86-495 (filed September 26, 1986) and No. 86-624 (filed October 16, 1986), arising from the same judgment, and set the three cases for consolidated review. The petitioner in No. 86-624 challenges the lower courts' jurisdiction. We will address the question in our response to that petitioner's brief.

[3] See W. Kelly, *Studies in United States Commercial Policy* 3-68 (1963).

tion 526 of the 1930 Tariff Act (46 Stat. 741), and now codified (as amended) at 19 U.S.C. 1526, which restricts the unauthorized importation of goods bearing U.S. trademarks. The question is whether a Department of the Treasury regulation, which interprets Section 526 as not prohibiting "parallel" importation of genuine trade-marked goods under certain circumstances, is valid. The answer will determine the fate of an important segment of the American retailing industry.[4]

Section 526(a) of the 1930 Tariff Act makes it unlawful "to import into the United States any merchandise of foreign manufacture if such merchandise * * * bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States * * * unless written consent of the owner of such trademark is produced at the time of making entry." 19 U.S.C. 1526(a).[5] Section 624 of the 1930 Tariff Act provides that "the Secretary of the Treasury is authorized to make such rules and regulations as may be necessary to carry out the provisions of this chapter." 19 U.S.C. 1624. Under the Treasury Department's regulation interpreting Section 526 (the "Customs Service regulation" set forth at 19 C.F.R. 133.21), an American firm that purchases the right to use a foreign mark as a U.S. trademark receives protection from attempts by others to import foreign merchandise (including "genuine" merchandise manufactured by the owner of the foreign

[4] Empirical information on the nature and extent of the so-called "gray market" is quite limited. Some reports have suggested that parallel imports have accounted for as much as $7 billion in domestic sales annually. See *The $7 Billion Gray Market: Where it Stops, Nobody Knows*, Business Week, Apr. 15, 1985, at 86-87. We cannot attest to the accuracy of that figure.

[5] Section 526(d), added in 1978, permits Americans returning from abroad to bring back limited quantities of foreign merchandise bearing U.S. trademarks. See 19 U.S.C. 1526(d).

mark) bearing the same or a similar mark. The regulation does not provide that protection, however, when the owners of the foreign mark and the U.S. trademark are the same, or are under common ownership or control, or the use of the foreign mark was authorized by the U.S. owner (*ibid.*). For convenience, we refer to this as the Customs Service regulation's "common control" exception.[6]

Many foreign manufacturers distribute their merchandise in this country through American subsidiaries, sometimes called "authorized distributors," that own the U.S. trademarks. Those firms, which are subject to the Customs Service regulation's common control exception, face sharp competition from "parallel importation": other firms (which may or may not also be related to the foreign manufacturer) acquire foreign goods bearing a genuine mark and supply them to U.S. retailers at prices lower than the U.S. trademark owner charges.[7] The driving force behind parallel importation is a matter of considerable debate. American discount retailers, such as petitioners K mart Corporation and 47th Street Photo, Inc., claim that parallel importation is a market response to attempts by foreign manufacturers to charge higher prices for their goods within the United States than elsewhere in the world (86-495 Pet. 5-7; 86-624 Pet. 2-3). Firms subject to the "common control" exception, such as respondents Cartier, Inc. and Charles of the Ritz Group, Ltd., contend, to the contrary, that parallel importers are taking a "free ride" on their advertising and promotional expenditures (Br. in Opp. 2-4). The Federal Trade Commission's Bureaus of Competition, Con-

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[6] The Customs Service regulation is set out at pages 3a-4a, *infra*. We discuss the history of the Customs Service regulation at pages 37-40, *infra*.

[7] Similarly, some American firms that own U.S. trademarks authorize foreign manufacturers to produce goods overseas bearing their marks. Those firms also encounter competition from parallel importation.

sumer Protection, and Economics recently concluded that "[t]he available data on gray market imports are much too sketchy and anecdotal to determine reliably which theory or theories are valid." [8]

Various U.S. trademark owners subject to the common control exception have joined forces through a trade association, respondent Coalition to Preserve the Integrity of American Trademarks (COPIAT), and have mounted a broad campaign, in legislative, administrative, and judicial forums, to reverse the Customs Service regulation.[9] Congress has made no change in the present law thus far. The President's Economic Policy Council, in conjunction with the Department of the Treasury and the Customs Service, is now conducting a policy review of the matter.[10] The courts have, in several cases, rejected respondents' legal objections.[11] The court below concluded, however, that the Treasury Department's longstanding interpretation of Section 526, currently embodied in the Customs Service regulation, is impermissible.

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[8] *Comments of the Bureaus of Competition, Consumer Protection and Economics of the Federal Trade Commission on Gray Market Policy Options Facing the United States Customs Service* 2 (Oct. 17, 1986) [cited hereinafter as *FTC Comments*].

[9] See Eisler, *Gray-Market Mayhem: It's Makers vs. Importers in Lobbying Onslaught*, IX Legal Times, Nov. 17, 1986, at 1, Col 1; Riley, *'Gray Market' Fight Isn't Black and White*, The National Law Journal, Oct. 28, 1985, at 1, Col. 3.

[10] See 51 Fed. Reg. 30024 (1986); *id.* at 22005; 50 Fed. Reg. 1655 (1985); 49 Fed. Reg. 29509 (1984); *id.* at 21453.

[11] See, *e.g., Olympus Corp.* v. *United States*, 792 F.2d 315 (2d Cir. 1986), aff'g 627 F. Supp. 911 (E.D.N.Y. 1985), petition for cert. pending, No. 86-757; *Vivitar Corp.* v. *United States*, 761 F.2d 1552 (Fed. Cir. 1985), aff'g 593 F. Supp. 420 (Ct. Int'l Trade 1984), cert. denied, No. 85-411 (Jan. 13, 1986); *Lever Bros. Co.* v. *United States*, Civ. No. 86-3151 (D.D.C. Jan. 21, 1987).

B. Proceedings Below

COPIAT brought this action in the U.S. District Court for the District of Columbia, seeking injunctive and declaratory relief against the United States, the Secretary of the Treasury, and the Commissioner of Customs. COPIAT urged that the Customs Service regulation is inconsistent with Section 526 and with Section 42 of the Lanham Act, which forbids the importation of goods bearing marks that "copy or simulate" U.S. trademarks (15 U.S.C. 1124).[12] K mart Corporation and 47th Street Photo, Inc., intervened as defendants.

The district court concluded that the Customs Service regulation is valid (Pet. App. 34a-50a). The court first rejected (*id.* at 36a) 47th Street Photo's motion to dismiss on the ground that the Court of International Trade has exclusive jurisdiction, pursuant to 28 U.S.C. 1581, over challenges to regulations interpreting Section 526. See *Vivitar Corp.* v. *United States*, 761 F.2d 1552 (Fed. Cir. 1985), cert. denied, No. 85-411 (Jan. 13, 1986). The court then agreed with 47th Street Photo (Pet. App. 37a-39a) that Section 42 of the Lanham Act does not provide a ground for relief in the present case, because that provision forbids only the importation of items bearing counterfeit or spurious trademarks, and dismissed COPIAT's Lanham Act claim. The court next addressed COPIAT's claim that the Customs Service regulation is inconsistent with Section 526 (Pet. App. 39a-48a). The court concluded that the regulation represents a "sufficiently reasonable" interpretation of the statute, "supported by the legislative history, judicial decisions, legislative acquiescence, and the long-standing consistent policy of the Customs Service" (*id.* at 48a). The court added that "[t]he regulations clearly implement the limited purpose for which section 526 was enacted" (*ibid.*).

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[12] Two members of COPIAT—Cartier, Inc. and Charles of the Ritz Group, Ltd.—were also named as plaintiffs. We shall refer to the three plaintiffs collectively as COPIAT.

The court of appeals affirmed the district court's jurisdictional ruling (Pet. App. 4a-8a) but reversed the determination that the Customs Service regulation is valid (*id.* at 8a-31a). The court of appeals stated that "Section 526 does not, on its face, admit of any exceptions based upon the relationship of the American and foreign trademark owners or upon whether the American owner has authorized the use of the trademark abroad" (*id.* at 10a). It concluded that "Congress' intent in Section 526 is clear" (*id.* at 11a) and refused to give deference to the Treasury Department's regulatory interpretation (*ibid.*). The court ruled, in the alternative, that the "regulations are invalid because they do not constitute a reasonable interpretation of Section 526" (*ibid.*). The court found the Customs Service regulation to be inconsistent with the purpose, legislative history, and past interpretations of the statute (*id.* at 11a-28a).

The court of appeals also rejected the district court's conclusion that the history of the Customs Service regulation "reveals 'a pattern of legislative acquiescence' " (Pet. App. 29a (quoting *id.* at 46a)) and the Federal Circuit's prior decision that the Customs Service regulations may be upheld " 'as a reasonable exercise of administratively initiated enforcement' " (*id.* at 31a (quoting *Vivitar*, 761 F.2d at 1571)). The court of appeals nevertheless concluded that "injunctive relief is inappropriate at this juncture of the controversy" (Pet. App. 32a) and remanded the case to the district court with instructions "to issue a declaratory judgment that the Customs regulations in question, 19 C.F.R. § 133.21(c)(1)-(3), are contrary to Section 526 of the Tariff Act of 1930, 19 U.S.C. § 1526, and hence unlawful" (*ibid.*). The court did not address the Lanham Act claim (*id.* at 9a).

SUMMARY OF ARGUMENT

The purpose of Section 526 of the 1930 Tariff Act was to protect the legitimate expectations of American firms that had acquired foreign marks for use in the United States. Congress did not intend, by enacting that section,

to create a mechanism to help foreign or multinational firms enforce exclusive U.S. distribution arrangements. Accordingly, the Treasury Department has long interpreted Section 526 to permit the importation of genuine trademarked merchandise where the owners of the foreign mark and the U.S. trademark owners are substantially identical companies or are subject to common control. The court of appeals erred in rejecting the Treasury Department's longstanding and reasonable construction of a statute that it is charged with administering. See *Chevron U.S.A. Inc.* v. *NRDC, Inc.*, 467 U.S.C. 837, 842-845 (1984). Any change in the government's policy in this complex and sensitive area should emanate from the legislative or executive branch rather than from the courts.

A. As both the court of appeals and respondents acknowledge, Congress enacted Section 526 in response to a particular case, *A. Bourjois & Co.* v. *Katzel*, 275 F. 539 (2d Cir. 1921), rev'g 274 F. 856 (S.D.N.Y. 1920), rev'd, 260 U.S. 689 (1923), which overturned a preliminary injunction protecting a U.S. trademark owner who had purchased a foreign trademark from importation of goods bearing that mark. Congress acted for the purpose "of protecting the property rights of American citizens who have purchased trade-marks from foreigners" (62 Cong. Rec. 11603 (1922) (Sen. Sutherland)) and exhibited no clear understanding or intention as to how, if at all, Section 526 would apply outside of that particular situation. There is, however, concrete evidence in the legislative record that Congress did not intend to create a mechanism to help foreign or multinational firms enforce exclusive U.S. distribution arrangements.

B. Congress expressly empowered the Treasury Department "to make such rules and regulations as may be necessary to carry out the provisions of [the 1930 Tariff Act]" (19 U.S.C. 1624). The Customs Service regulation implementing Section 526 "is 'reasonably related to the purposes of the enabling legislation'" and is therefore valid. *E.g., Mourning* v. *Family Publications*

Service, Inc., 411 U.S. 356, 369 (1973). In order to protect "property rights of Americans," the regulation generally prohibits unauthorized importation of trademarked items. When (as in *Katzel*) an independent American company purchases U.S. trademark rights from a foreign manufacturer, the American company will receive full protection against unauthorized importation of goods bearing that mark. In order not to furnish a mechanism to assist foreign and multinational firms in enforcing exclusive U.S. distribution arrangements, the regulation provides a limited exception when the foreign and domestic trademark owners are the same or subject to common control, or when the trademark was applied by authorization of the U.S. trademark owner, so that in these situations the Customs Service is not required to exclude genuine goods sold for lower prices in overseas markets.

C. The Treasury Department's interpretation is entitled to particular deference in this instance. First, the Treasury Department has adhered to its basic interpretation of Section 526 for over 50 years. Although the exact terms of the Treasury Department's exception have varied somewhat, the exception has been part of the regulations since 1936. This longstanding and consistent interpretation is entitled to considerable weight. *E.g.*, *Zenith Radio Corp.* v. *United States*, 437 U.S. 443, 450 (1978). Congress has been informed repeatedly of the Customs Service regulation and has declined to alter it. Indeed, Congress took note of the Treasury Department's interpretation in 1978, when it amended Section 526. Second, the domestic retailing industry has placed substantial and justified reliance on the Treasury Department's interpretation. Given this substantial investment-backed reliance, the expert agency's longstanding construction should not be disturbed except for the most compelling reasons. *E.g.*, *Udall* v. *Tallman*, 380 U.S. 1, 18 (1965).

Both Congress and the Executive Branch are currently reviewing the government's policy toward parallel imports. The Treasury Department's adherence to its long-standing interpretation of Section 526 is particularly appropriate at this time in light of those on-going studies of this complicated and controversial matter.

ARGUMENT

THE CUSTOMS SERVICE REGULATION SETS FORTH A PERMISSIBLE INTERPRETATION OF SECTION 526 OF THE 1930 TARIFF ACT

The phenomenon of parallel importation raises important and difficult issues of international trade policy and economic theory. Both Congress and the Executive Branch are now reviewing those issues, and (in part because commercial interests on both sides have much at stake) the debate is a heated one. The issue here, however, is not whether the Treasury Department's interpretation of Section 526 of the 1930 Tariff Act is wise as a policy matter. The sole question before this Court is whether the Customs Service regulation, which permits parallel importation in certain circumstances, is a permissible interpretation of the statute. This Court's decision in *Chevron U.S.A. Inc.* v. *NRDC, Inc.*, 467 U.S. 837 (1984), lays out the general framework for answering that question.

Chevron states that the initial inquiry, always, is "whether Congress has directly spoken to the precise question at issue" (467 U.S. at 842). "If the intent of Congress is clear, that is the end of the matter; for the court, as well as the agency, must give effect to the unambiguously expressed intent of Congress" (*id.* at 842-843 (footnote omitted)). If, however, the court finds that Congress has not addressed the precise question presented, the court must then determine "whether the agency's answer is based on a permissible construction of the statute" (*id.* at 843 (footnote omitted)). The touchstone for that determination is reasonableness (*id.* at 844, 845).

An agency's interpretation of the meaning or reach of a statute is entitled to special deference when, for example, the decision involves reconciling conflicting policies or requires more than ordinary knowledge of the matters subject to agency regulation (*ibid.*).

When the language of Section 526 is read in light of its legislative history, it is apparent that Congress did not have a clear intent concerning the reach of Section 526. The Customs Service regulation reasonably interprets and implements Congress's apparent purpose and is entitled to judicial deference. Congress may, of course, clarify or modify its purposes in light of current conditions—or in response to the lobbying efforts of the private petitioners and respondents in this case. And the Administration's on-going policy review may provide a new understanding of the parallel importation phenomenon today, which may prompt the Treasury Department to revise the regulation. But in the interim, the courts should defer to the agency's responsible decision to retain its longstanding regulations and preserve the status quo.

A. Section 526 Was Enacted To Protect U.S. Trademark Owners That Had Acquired Their Rights From Foreign Trademark Owners; There Is No Evidence That Congress Understood Or Intended It To Apply Where The Foreign And U.S. Trademark Owners Are The Same Or Related Companies

Section 526 of the 1930 Tariff Act prohibits the importation of foreign merchandise bearing a U.S. trademark "owned by a citizen of, or by a corporation or association created or organized within, the United States" unless written consent of the trademark owner is produced at the time of making entry. 19 U.S.C. 1526. When used today in ordinary parlance, this language, standing alone, would normally be taken to refer to a U.S. corporation without regard to any relationship it may have to a foreign person or firm. But the special emphasis in this trade regulation law on protecting

United States citizens, associations, and corporations, is a sharp departure from the language of trademark law [13] and invites further inquiry into whether Congress had in mind a more specific protection of Americans and American firms. That inquiry reveals that "Congress has not addressed the precise question at issue" (*Chevron*, 467 U.S. at 843).

This Court has recognized on a number of occasions that the "circumstances of the enactment of particular legislation may persuade a court that Congress did not intend words of common meaning to have their literal effect." *Watt* v. *Alaska*, 451 U.S. 259, 266 (1981); see, *e.g.*, *FDIC* v. *Philadelphia Gear Corp.*, No. 84-1972 (May 27, 1986), slip op. 5-6; *United States* v. *Riverside Bayview Homes, Inc.*, No. 84-701 (Dec. 4, 1985), slip op. 10. "It is a 'familiar rule, that a thing may be within the letter of the statute and yet not within the statute, because not within its spirit, nor within the intention of its makers.'" *California Federal Savings & Loan Ass'n* v. *Guerra*, No. 85-494 (Jan. 13, 1987), slip op. 10-11 (citation omitted).[14]

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[13] Trademark law permits domestic and foreign trademark owners to register trademarks in the United States in the same manner and gives them the same protection (assuming that the mark meets the various requirements for protection) against infringement; the only special rule for foreign owners is that they must designate agents for service. See 15 U.S.C. 1051.

[14] *E.g.*, *Church of the Holy Trinity* v. *United States*, 143 U.S. 457, 459 (1892); see *Train* v. *Colorado Public Interest Research Group, Inc.*, 426 U.S. 1, 10 (1976); *United States* v. *American Trucking Ass'ns*, 310 U.S. 534, 543-544 (1940). See also, *e.g.*, *Chevron*, 467 U.S. at 861 ("We are not persuaded that parsing of general terms in the text of the statute will reveal an actual intent of Congress." (footnote omitted)). When expounding a statute, both the courts and administrative agencies "must not be guided by a single sentence or member of a sentence, but look to the provisions of the whole law, and to its object and policy." *Kelly* v. *Robinson*, No. 85-1033 (Nov. 12, 1986), slip op. 6; *Offshore Logistics, Inc.* v. *Tallentire*, No. 85-202 (June 23, 1986), slip op.

The *Guerra* decision is particularly instructive. The issue there was whether the Pregnancy Discrimination Act of 1978 (the PDA), which provides that pregnant women "shall be treated the same [as other persons] for all employment-related purposes" (42 U.S.C. 2000e(k)), preempted a state law providing special leave and reinstatement rights for pregnant employees. The PDA's language, when read literally, commands that there be neither more favorable nor less favorable treatment for pregnant women. However, when the Court examined that language "against the background of its legislative history and historical context" (*Guerra*, slip op. 10), it concluded (contrary to our urging as to the legislative history [15]) that the statute was passed for the limited purpose of overruling the Court's decision in *General Electric Co.* v. *Gilbert*, 429 U.S. 125 (1976). The Court adopted a correspondingly limited interpretation of the broad statutory language, holding that the PDA imposes a floor but not a ceiling on the rights accorded to pregnant employees (*Guerra*, slip op. 11-12).

Similar reasoning should control this case. Here, as in *Guerra*, Congress legislated in response to a particular judicial precedent. Section 526 was a hastily drafted reaction to the Second Circuit's decision in *A. Bourjois & Co.* v. *Katzel*, 275 F. 539 (1921), rev'g 274 F. 856

13; *Mastro Plastics Corp.* v. *NLRB*, 350 U.S. 270, 285 (1956); *United States* v. *Heirs of Boisdoré*, 49 U.S. (8 How.) 113, 122 (1850)). "Of course it is true that the words used, even in their literal sense, are the primary, and ordinarily the most reliable, source of interpreting the meaning of any writing: be it a statute, a contract, or anything else. But it is one of the surest indexes of a mature and developed jurisprudence not to make a fortress out of the dictionary; but to remember that statutes always have some purpose or object to accomplish, whose sympathetic and imaginative discovery is the surest guide to their meaning." *Cabell* v. *Markham*, 148 F.2d 737, 739 (2d Cir.) (L. Hand, J.), aff'd, 326 U.S. 404 (1945). See *Boston Sand Co.* v. *United States*, 278 U.S. 41, 48 (1928) (Holmes, J.).

[15] See U.S. Amicus Br. 13-15.

(S.D.N.Y. 1920), rev'd, 260 U.S. 689 (1923), which overturned a preliminary injunction protecting a U.S. trademark owner who had purchased a foreign trademark from importation of goods bearing that mark.[16] The legislative history reveals that Section 526 was intended to address the situation present in *Katzel*. Congress wished to protect the expectations of an independent American firm that purchased domestic trademark rights; it had no intention to create a mechanism to help foreign or multinational firms enforce exclusive U.S. distribution arrangements. Here, as in *Guerra*, the broad statutory language must be read in light of the limited objectives Congress intended to achieve. See also, *e.g.*, *Kelly* v. *Robinson*, No. 85-1033 (Nov. 12, 1986), slip op. 6; *Offshore Logistics, Inc.* v. *Tallentire*, No. 85-202 (June 23, 1986), slip op. 13.

1. The facts of *Katzel* are straightforward. A. Bourjois & Co., an American company, purchased from Wertheimer & Cie., a French partnership, the French company's U.S. cosmetics business, including the U.S. trademark and exclusive domestic right to sell "Poudre Java," an internationally recognized face powder (274 F. at 857-858). Eight years later, Bourjois brought a trademark infringement action against another domestic party—Katzel—that had purchased Wertheimer's product abroad and resold it in its French packing, marked "Poudre de riz de Java" (*ibid.*). The district court, responding to Bourjois' request for a preliminary injunction excluding Katzel's imports, stated (*id.* at 859):

> If an American business concern buys all of the rights, as in the case at bar, of a business established here by a foreign concern, and then the for-

[16] The court of appeals and COPIAT agree, respectively, that the Second Circuit's decision was the "major stimulus" (Pet. App. 12a) and "genesis" (Br. in Opp. 10) of the provision. See also *Coty, Inc.* v. *Le Blume Import Co.*, 292 F. 264, 268-269 (S.D.N.Y. 1923) (L. Hand, J.); *Sturges* v. *Clark D. Pease, Inc.*, 48 F.2d 1035, 1037 (2d Cir. 1931) (A. Hand, J.).

> eign concern is nevertheless at liberty to compete with the American concern, the result will be that the purchase of rights, under such circumstances, will give little or no protection; and the foreign concern, as well as the domestic concern, will be seriously injured in the long run, because American capital certainly will not be invested, and foreign concerns will find it difficult to sell the rights which they have developed in this country.

The court observed (*id.* at 860) that the record did not indicate whether the foreign manufacturer knew of or consented to Katzel's action. It also stated that Section 27 of the Trademark Act of 1905 (the precursor of Section 42 of the Lanham Act), which directed the Customs Service to exclude "imported merchandise which shall copy or simulate the name of any domestic manufacture" (33 Stat. 730) did not provide a remedy in these circumstances.[17] It nevertheless enjoined Katzel's importation, fashioning an equitable remedy to deal with this unusual situation (274 F. at 860).[18]

The Second Circuit reversed (275 F. at 539). The court assumed that "it would be a breach of the French firm's obligations [under the assignment contract] to sell

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[17] The district court apparently concluded that a mark properly applied abroad does not "copy or simulate" a U.S. mark, stating, "if an article is genuine, in the sense of defendant's box, it may be imported into this country, and cannot be stopped at the door of the custom house" (274 F. at 860). The court did recognize a distinction between trademark infringement and the protections offered by Section 27, stating "whether or not the article may be marketed here under a particular trade-mark is a question to be determined in ascertaining the rights of parties, quite irrespective of section 27" (274 F. at 860).

[18] The court justified its result on the ground that "the original owner of the business and its trade-marks had completely parted therewith to a vendee, who had proceeded upon the strength of his ownership to develop an American market" (274 F. at 860). As we explain at note 19, *infra*, this Court would later rely on that fact to conclude that Katzel infringed Bourjois' trademark.

its face powder in this country" (*id.* at 540). The court stated that the question, however, was whether Katzel has "the right to sell this article under the trademarks which truly indicate its origin" (*ibid.*). It concluded that trademark law did not prohibit that practice, reasoning that a trademark simply demonstrates "the origin of the goods they mark" and that "[i]f the goods sold are the genuine goods covered by the trademark, the rights of the owner of the trade-mark are not infringed" (*id.* at 543). The court, finding that Bourjois could not state a claim of trademark infringement, reversed the district court's preliminary injunction order.

2. American trademark owners, many of whom had acquired foreign trademarks from the Custodian of Alien Property during and after World War I, sought an immediate legislative remedy, even though the Supreme Court had agreed to review the Second Circuit's decision.[10] Their efforts resulted in enactment of Section 526 of the 1922 Tariff Act. The brief legislative record indicates that Congress enacted Section 526 for the narrow purpose "of protecting the property rights of American citizens who have purchased trade-marks from foreigners" (62 Cong. Rec. 11603 (1922) (Sen. Sutherland)) and that Congress had no understanding that its hastily drafted remedy would extend beyond that situation.

[10] Bourjois had requested the court of appeals to certify the case for this Court's review, citing "its supreme importance in view of the many businesses * * * bought during the European War by citizens of this country from the Custodian of Alien Property" (275 F. at 544). The court denied that request. Bourjois then filed a petition for a writ of certiorari, which was granted on November 7, 1921. 257 U.S. at 630. This Court ultimately reversed the court of appeals' *Katzel* decision. See *A. Bourjois & Co.* v. *Katzel*, 260 U.S. 689 (1923). The Court concluded that Katzel had infringed Bourjois' U.S. trademark, reasoning that the mark Bourjois had purchased "indicates in law, and, it is found, by public understanding, that the goods come from the plaintiff although not made by it." (*id.* at 692). The Court did not mention the statutory remedy at issue here.

When Congress reenacted Section 526 as part of the 1930 Tariff Act, it also expressed an understanding that the provision had a limited scope, suggesting that it protected only domestic firms from infringement of their marks. In both instances, Congress did not consider or address the subtle, complex, and potentially far-reaching problems that can arise when, as here, foreign trademark owners create American subsidiaries for the purpose of marketing goods under U.S. trademarks.

a. The House Conference report on the 1922 Tariff Act provides a short description of Section 526.[20] That report cites (by indirect reference) the *Katzel* decision, and indicates that Section 526 would provide the remedy that the court of appeals had denied "in order to protect the American manufacturer or producer" (H.R. Conf. Rep. 1223, 67th Cong., 2d Sess. 158 (1922)). The report notes that the provision was amended in conference to limit that protection to trademarks owned "by a citizen of the United States or by a corporation or association created or organized within the United States" (*ibid.*).

The legislative debate surrounding this enactment reveals that Section 526 was proposed on the Senate floor

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[20] That report states (H.R. Conf. Rep. 1223, 67th Cong., 2d Sess. 158 (1922)):

> A recent decision of the circuit court of appeals holds that existing law does not prevent the importation of merchandise bearing the same trademark as merchandise of the United States, if the imported merchandise is genuine and if there is no fraud upon the public. The Senate amendment makes such importation unlawful without the consent of the owner of the American trade-mark, in order to protect the American manufacturer or producer; and the House recedes with an amendment requiring that the trade-mark be owned, at the time of the importation, by a citizen of the United States or by a corporation or association created or organized within the United States.

The Senate Conference report gives no explanation of Section 526. See S. Conf. Rep. 253, 67th Cong., 2d Sess. 51 (1922).

as one of the "midnight amendments" to the 1922 Tariff Act. 62 Cong. Rec. 11602 (1922).[21] Its original language provided in pertinent part (*ibid.*):

> it shall be unlawful to import into the United States any merchandise if such merchandise * * * bears a trade-mark registered in the Patent Office by a person domiciled in the United States * * * unless written consent of the owner of such trademark is produced at the time of making entry.

The Senate allotted ten minutes for its debate (62 Cong. Rec. 11585-11586 (1922)). During that brief period, the proponents repeatedly assured their fellow senators that Section 526 was intended to serve the limited purpose of protecting Americans who *purchased* U.S. trademark rights from foreign trademark owners.

Senator Moses raised an initial objection to Section 526 precisely because the provision was intended only to reverse the result in *Katzel*. 62 Cong. Rec. 11603 (1922).[22] Senator Sutherland, the chief proponent, did not disagree with that characterization. Instead, he defended that objective, stating (*ibid.* (emphasis added)):

> Mr. President, all that this paragraph does is to prevent fraud, and I believe that the Senate is in

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[21] "It was written by a lawyer well known in the precincts of the Capitol; it was inserted in the bill originally, without hearing, upon the votes of four Senators, it was removed from the bill by a disagreeing vote * * * [and] was put back in the bill among the myriad of amendments brought in by the committee the other morning after their midnight session * * *." 62 Cong. Rec. 11602 (1922) (Sen. Moses). It was not reviewed by the Committee on Foreign Relations or the Committee on Patents (*ibid.*).

[22] He observed that "the whole subject matter involved in this amendment is now before the courts of the United States for determination. A case involving its entire principle has been heard in the circuit court of appeals and is now on its way to the Supreme Court of the United States for final determination." 62 Cong. Rec. 11603 (1922).

> favor of *protecting the property rights of American citizens who have purchased trade-marks from foreigners,* and when these foreigners deliberately violate the property rights of those *to whom they have sold these trade-marks* by shipping over to this country goods under those identical trade-marks.

Senator Sutherland repeatedly emphasized that Section 526 was designed for the specific purpose of protecting American citizens who purchased U.S. trademark rights to a product manufactured abroad.[23]

Senator McCumber, the other principal spokesman for Section 526, concurred in Senator Sutherland's assessment. He observed that "the courts have held that we can not prevent any product being shipped into the United States if it is in violation of a trade-mark where the foreign maker *has sold trade-mark and all,* patent and everything, in the United States." 62 Cong. Rec. 11604 (1922) (emphasis added). Sen. McCumber cited the specific case of "Bayer's" aspirin, stating (*ibid.* (emphasis added)):

> Suppose not only the patent but the trade-mark * * * is sold to an American concern outright. * * * Then the German firm, notwithstanding that they have sold all rights, including the trademark, begin to ship in Bayer's Aspirin with the same kind of a

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[23] See 62 Cong. Rec. 11603 (1922) (describing the bill as a "prohibition against the shipping over to this country of merchandise under specific trade-marks which have been bartered away to citizens of the United States"); *ibid.* (stating that the bill "only protects a property right which has been sold"); see also *ibid.* (Sen. Kellogg) (describing the bill as a "prohibition against the shipping over to this country of merchandise under specific trademarks which have been bartered away to citizens of the United States"). Senator Sutherland's statements reveal a belief that foreign manufacturers were responsible for the importation of U.S. trademarked goods. See also *id.* at 11605 (statement of Sen. McCumber). However, as previously noted (page 15, *supra*), the district court in *Katzel* found no evidence in the record that the foreign manufacturer directly participated in the objectionable practices.

trade-mark * * *. According to the decision that was read by the Senator from West Virginia [Mr. Sutherland] the American purchasers of these rights are entirely unprotected, and *this is to give the opportunity to protect the American purchaser. That is all there is to it, and there is no treaty against it.*

Senator McCumber later emphasized that Section 526 was intended to protect the American purchaser by serving as a "prohibition against the violation of his contract" (*ibid.*). His comments, like those of Senator Sutherland, convincingly demonstrate that Section 526 was adopted for the limited purpose of protecting the legitimate expectations of American citizens who purchase U.S. trademark rights.[24]

The legislative debate demonstrates, with equal persuasiveness, that Congress did not directly consider the problem presented in this case: whether, if a foreign trademark owner has created a U.S. subsidiary for the purpose of marketing its goods under a U.S. trademark, the U.S. Customs Service must prevent parallel importation of goods manufactured by the foreign firm. The

[24] See also 62 Cong. Rec. 11604 (1922) (statement of Sen. Simmons) ("if the Bayer Co. puts the trade-mark which now belongs to American citizens upon those goods the goods are to be excluded, because it is an invasion of the rights of American citizens"); (*ibid.*) (statement of Sen. Pomerene) ("this is simply an exercise of good faith on the part of Congress toward the people who have acquired the rights to this trade-mark under laws heretofore enacted by the Congress of the United States"). Indeed, the proponents promptly revised the provision in response to suggestions that it might be employed in circumstances other than the case, as in *Katzel*, where an American citizen purchased a trade-mark from its foreign owner. For example, Senator Lenroot observed that, under the proposed language, if "an American citizen goes to the city of Toronto and purchases some goods of American manufacture, bearing an American trade-mark" he could not return those goods to the United States. 62 Cong. Rec. 11603 (1922). The proponents promptly amended the proposed language, expressly limiting its reach to goods of "foreign manufacture" (*id.* at 11604). See also note 26, *infra*.

debate contains no discussion of that possibility. Senator Lenroot's inquiries approached (but did not reach) the issue at the close of the debate. He asked whether a foreign trademark owner who employed an American agent to *register* his trademark would be entitled to the protection offered by the legislation.[25] His question, and the answer he received, demonstrate that Congress did not have a clear understanding of how Section 526 would affect any situation other than that presented in *Katzel*. However, the colloquy did establish that Congress had no intention of providing a mechanism to help foreign or multinational corporations enforce exclusive U.S. distribution arrangements.

Senator Lenroot apparently feared that, under the literal language of the floor proposal, a foreign trademark owner might obtain a U.S. monopoly for the distribution of his product, enforced by the Customs Service, by simply employing an American agent to register his trademark in the United States. He posed the following hypothetical question (62 Cong. Rec. 11605 (1922)):

> We will assume that Pears' soap * * * is not registered in the United States. It is sold in the general markets throughout the world, but the makers of Pears' soap desire a monopoly in the United States. They have American agents who register a trademark of Pears' soap here in the United States.
>
> I want to inquire whether any American could purchase Pears' soap abroad and import it without the written consent of their agent here in the United States, and if not, why not?

Senator McCumber plainly believed that Section 526 would *not* apply. He responded, "if there has been no

[25] The floor proposal, it should be remembered, required exclusion of imported merchandise "if such merchandise * * * bears a trade-mark registered in the Patent Office by a person domiciled in the United States" (62 Cong. Rec. 11602 (1922)). Section 526, in its present form, requires American ownership of the trademark as well.

transfer of trade-mark, that presents *an entirely different question*" (*ibid.* (emphasis added)). He added, "The mere fact of a foreigner having a trade-mark and registering that trade-mark in the United States, and selling the goods in the United States through an agency, of course, *would not be affected* by this provision" (*ibid.* (emphasis added)). Senator Lenroot reiterated his concern that, under the literal language of the statute, "Pears' soap could not be bought in the markets of the world and sold here without the written consent of the Pears Soap Co., or their agent" if the company simply arranged for an American to register its domestic trademark (*ibid.*). Before Senator McCumber could respond, time ran out on the debate (*ibid.*). But the House-Senate conference amended Section 526 to preclude the potential problem that Senator Lenroot had perceived.[26]

Thus, when Section 526's language is read in light of its proponents' explanations, it becomes apparent that Congress had no concrete understanding or intention that it would bar importation outside of the situation, as in *Katzel*, where an American entity purchased U.S. trademark rights from the foreign trademark owner.[27] All

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[26] As we have previously observed (page 17 & note 25, *supra*), the Senate and House conferees revised Section 526's language to provide that the import exclusion would apply only if the trademark was both *owned* and registered by a American citizen or entity. That revision confirmed Senator McCumber's understanding of the legislation. But it also set the stage for the present dispute—whether a foreign trademark owner could accomplish the same result that Senator Lenroot feared by incorporating a domestic subsidiary that (like the domestic agent in Senator Lenroot's example) could invoke the exclusion for the foreign manufacturer's benefit. As we discuss later (pages 31-36, *infra*) the Treasury Department has reasonably concluded that Congress would have wished to prevent that result.

[27] Section 27 of the 1905 Trademark Act (see page 15, *supra*) already broadly prohibited importation of any merchandise "which shall copy or simulate a trade-mark registered" in the United States. Section 526 prohibited importation of merchandise that

that can be said with certainty is: (1) Congress intended to protect American firms that had acquired U.S. trademark rights from foreign trademark owners; and (2) at the same time, Congress was concerned (as demonstrated by the Lenroot-McCumber exchange and the resulting amendment of the proposed statutory language) that Section 526 *not* give foreign manufacturers a means to enforce exclusive U.S. distribution arrangements.

The context and character of the debate further support this conclusion. The 1922 Tariff Act was a massive undertaking that filled over 100 pages of the Statutes at Large and resulted from a voluminous legislative history. Section 526 was a minor non-tariff provision of that Act, was first considered on the Senate floor, was allotted a mere ten minutes of debate, and was one of over 4,000 proposed amendments considered by the House-Senate conferees. See S. Conf. Rep. 253, 67th Cong., 2d Sess. (1922); H.R. Conf. Rep. 1223, *supra*. Plainly, the breadth of Section 526's language was the product of hasty drafting rather than a conscious intent to prevent importation of U.S. trademarked goods in every instance.[28] Congress did not (indeed, could not)

"bears a trademark owned by a citizen of * * * the United States"; it thus extended the existing protection (but only as to citizens of the United States) so as to prohibit importation of goods bearing genuine trademarks as well as imitation trademarks. The argument of this brief is that the Treasury Department could reasonably conclude that Congress had in mind, as beneficiaries of the extension, only citizens who had purchased U.S. trademark rights, not U.S. citizens under common control with the foreign trademark owner.

[28] The "circumstances of its drafting" (*American Tobacco Co.* v. *Patterson*, 456 U.S. 63, 68 (1982)) demonstrate that Congress was not "mindful of every word, of every comma, and of the shading of every phrase" (*id.* at 69 (interior quotation marks omitted)). That fact is illustrated by Section 526's awkward language and by the actions of its sponsors. Notably, in each case where the sponsors encountered objections that the literal language would reach cases distinguishable from *Katzel*, they denied any such intent (and re-

give careful attention to every potential ramification of that floor amendment. Instead, it relied on the representations of Section 526's sponsors, who maintained that Section 526 was designed to provide special protection to Americans who purchased U.S. rights from foreign trademark owners.[29] And it left the implementation of the provision to the Treasury Department, empowering the agency to "make such rules and regulations as may be necessary to carry out the provisions of this Act" (§ 623, 42 Stat. 988). There is no reason whatever to conclude that Congress intended that Section 526 would reach far beyond the specific situation that prompted its proposal and passage. Cf. *American Truck-*

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vised the language). See notes 24 & 26, *supra*. Furthermore, the sponsors themselves did not have a firm grasp of their proposed statutory language or *Katzel's* precise facts. For instance, Senator McCumber stated that for Section 526 to apply, "there must be one domiciled in this country who is the owner of the trade-mark" (62 Cong. Rec. 11605 (1922)). However, the provision proposed on the Senate floor did not contain that requirement. See page 18 & note 26, *supra*. He (like Senator Sutherland) also seemed to believe that the foreign trademark owner in *Katzel* had participated in the objectionable importation. See 62 Cong. Rec. 11605 (1922); note 23, *supra*.

[29] Indeed, only an extraordinarily perceptive congressman would have recognized during the brief floor debate that foreign manufacturers could conceivably use the proposed legislation to their advantage by incorporating domestic subsidiaries that would own their U.S. trademarks. Foreign ownership of U.S. firms in United States markets was far less common during that period. For example, total direct foreign investment in the United States during that era was less than one percent of recent figures. Compare U.S. Dep't of Commerce, *Statistical Abstract of the United States 1986*, at 797 (106th ed.) ($159.6 billion in 1984) with U.S. Dep't of Commerce, *Historical Statistics of the United States* Pt. 2, at 869 (1975) ($900 million in 1919). And over 96% of all manufactured goods consumed in the United States during the 1920's were supplied by domestic producers. See W. Kelly, *Studies in United States Commercial Policy* 13 (1963).

ing Ass'ns v. *United States*, 344 U.S. 298, 307-308 (1953).

b. When Congress enacted the 1930 Tariff Act, it revisited Section 526. The House bill (H.R. 2667, 71st Cong., 1st Sess. (1929)) provided for reenactment of Section 526(a) without substantive change. H.R. Rep. 7, 71st Cong., 1st Sess. 234 (1929). The Senate proposed, however, to modify the provision by omitting the clause that permitted a U.S. trademark owner to consent to the admission of foreign manufactured goods bearing his trademark. S. Rep. 37, 71st Cong., 1st Sess. 75 (1929); 71 Cong. Rec. 3871 (1929).[30] The proposal would have represented a dramatic shift in purpose; it sought to prevent American firms from relocating their manufacturing plants overseas. See S. Rep. 37, *supra*, at 75. Its principal proponent, Senator Reed, explained, "We have been protecting the owner of the trade-mark. Now, we want to protect the American labor that goes to make these articles" (71 Cong. Rec. 3873 (1929)). The Senate passed the Reed proposal following extensive debate on the effects of foreign relocation of American businesses. See 71 Cong. Rec. 3871-3876, 3889-3906, 4497-4498 (1929). The House-Senate conferees ultimately rejected the proposal and Congress reenacted Section 526 without substantive change. See H.R. Conf. Rep. 1326, 71st Cong., 2d Sess. 112 (1930); 72 Cong. Rec. 7870 (1930).

The 1929 floor debate says little about the perceived scope of Section 526, and what it does say further confuses the picture. Senator Reed expressed his belief that the provision was designed to prevent actual trademark infringement, stating (71 Cong. Rec. 3873 (1929) (emphasis added)):

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[30] The Senate also proposed to add a new subsection, Section 526(b), that would have extended this import prohibition to articles marked with a U.S. patent notice. See S. Rep. 37, *supra*, at 75.

> At the present time the tariff laws forbid the importation of an article bearing a trade-mark registered in America unless the owner of that trade-mark consents in writing to the importation. Obviously the purpose of that provision is to protect the American owner of the trade-mark against importations of *articles which have been stamped with his mark without his consent.* That is all right as a protection of the American owner of the trade-mark.

Senator George opposed Senator Reed's proposal but agreed with Reed's interpretation of the current law, stating (*id.* at 3872 (emphasis added)):

> The section, as it exists in the present law, provides means whereby *a manufacturer in this country* can register his trade-mark * * * and prevent the importation of merchandise bearing an *infringing* trade-mark.

That interpretation differs from the view, repeatedly expressed in the 1922 Senate debate, that Section 526 would protect the rights of American citizens who, as in *Katzel*, purchased trademarks from foreign entities. But more importantly, even the interpretation offered in 1930 suggests that Section 526 was not intended to reach every case that could fall within its literal language. Here, as in the 1922 debate, Congress gave no indication that Section 526's protection would be available when a foreign trademark owner created a domestic subsidiary that would distribute trademarked items within the United States. And here, as in the 1922 Tariff Act, Congress empowered the Treasury Department "to make such rules and regulations as may be necessary to carry out the provisions of this Act." § 624, 46 Stat. 759 (presently codified at 19 U.S.C. 1624).[31]

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[31] Section 526 was amended once again, in 1978, to permit American travelers returning from abroad to bring trademarked goods into the United States. See Customs Procedural Reform and Sim-

3. The legislative record offers no support for the court of appeals' statement that "the statute embodies a purpose as sweeping as the terms its drafters employed" (Pet. App. 12a). And the court is simply incorrect in asserting (*id.* at 14a-15a) that in Section 526 Congress "rejected without qualification the legal theory underlying the Second Circuit's opinion in *Katzel*—the view that a trademark genuine in a foreign country is necessarily genuine here as well—and enshrined the alternative 'territoriality' approach into law": Section 526 is an importation statute that does not deal with the nature or reach of trademarks at all.

The court rests its conclusion that Section 526 expresses a "territoriality" approach to trademark law primarily on its reading of the House Conference report, which characterizes Section 526 as reversing *Katzel*'s denial of an import exclusion (H.R. Conf. Rep. 1223, *supra*, at 158). See Pet. App. 15a. The court states that the "report's reference to *Katzel* mistakenly identifies it as an import exclusion case rather than an infringement case; more important, however, is the report's reflection of Congress' sweeping rejection of prevailing legal doctrine" (*ibid.*). We submit, however, that the Conference report was correct and the court below was mistaken. Bourjois did sue Katzel on a trademark infringement theory, but the Second Circuit's *Katzel* decision reviewed the district court's grant of a *preliminary injunction excluding Katzel's imports.* The Second Circuit reversed the district court's order on the ground that existing law gave the trademark owner no right to exclude genuine goods; Congress, in response, gave the Customs Service and private parties (through a private injunctive remedy) the express right to exclude such goods. See 19 U.S.C. 1526(a)-(c). Congress

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plification Act of 1978, Pub. L. No. 95-410, § 211, 92 Stat. 903 (discussed at pages 41-42, *infra*). That amendment did not alter the statutory language at issue here.

showed no interest in redefining the character or concept of a trademark; instead, it sought to provide a particular form of protection for persons in Bourjois' situation, who had purchased a trademark from its foreign owner.[32]

The 1922 legislative debate bears out this interpretation. No senator suggested that Section 526 would clarify or alter the character of the property right represented by a trademark. Instead, the sponsors repeatedly emphasized that the provision would provide protection for rights already in existence.[33] The court below mistakenly perceives some support for its interpretation in the Lenroot-McCumber colloquy, stating that "the appropriate inference to be drawn is that Senator Lenroot was correct in fearing that the statute meant exactly what it said" (Pet. App. 19a). Senator McCumber's re-

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[32] See *Coty, Inc.*, 292 F. at 268-269 ("Section 526(a) * * * was intended only to supply the casus omissus, supposed to exist in section 27 of the [Trademark] Act of 1905 * * *.") (L. Hand, J.); cf. Vandenburgh, *The Problem of Importation of Genuinely Marked Goods Is Not a Trademark Problem*, 49 Trademark Rep. 707 (1959).

[33] See, *e.g.*, 62 Cong. Rec. 11603 (1922) (Sen. Sutherland) ("I believe that the Senate is in favor of protecting the property rights of American citizens who have purchased trade-marks from foreigners."); *ibid.* ("[Section 526] only protects a property right which has been sold"); *id.* at 11604 (Sen. McCumber) ("American purchasers of [trademark] rights are entirely unprotected, and this is to give the opportunity to protect the American purchaser."); *ibid.* ("[Section 526] is a prohibition against the violation of [the American trademark purchaser's] contract."); *ibid.* (Sen. Pomerene) ("[Section 526] is simply an exercise of good faith on the part of Congress toward the people who have acquired the rights to this trade-mark under laws heretofore enacted by the Congress of the United States."). Notably, the Senate passed Section 526 without seeking the advice of the Committee on Patents, which exercised jurisdiction over trademark matters (*id.* at 11602 (Sen. Moses)). If Congress had intended to "enshrine" a new legal theory of trademarks, it undoubtedly would have referred the matter to the appropriate congressional committees.

sponse and the conferees' subsequent amendment demonstrate, however, that the proposed language was broader than the sponsors' understanding of the provision. And the court's reliance on speculation and strained inference underscores the absence of a clear legislative intent. Indeed, the court generally concedes (*id.* at 16a-17a, 19a) that the statements of Section 526's sponsors do not support its interpretation.[34]

The court's reading of the legislative history of the 1930 reenactment is also unpersuasive. The court states that Senator Reed's "failed amendment further demonstrates Congress's understanding that Section 526 absolutely barred importation of goods bearing an American company's trademark without the company's consent" because, if the Treasury Department's interpretation is correct, the failed amendment "would have been wholly ineffectual and purposeless" (Pet. App. 20a (footnote omitted)). This logic is flawed for at least three reasons. First, Senator Reed's proposal was *not* simply an amendment of Section 526; it was an enactment of new legislation, under the same section number, for a completely different purpose. One cannot presume that language taken from a repealed statute must necessarily convey the same meaning in subsequent legislation, particularly when the ultimate object of the new enactment is dramatically different.[35] Second, if Senator Reed's pro-

[34] The court suggests that "such statements are best understood as efforts by proponents of a bill to understate its significance" (Pet. App. 17a) and that such statements "must be taken with a grain of salt" (*ibid.*). The court's attempt to psychoanalyze the legislature is, we believe, misguided, and would ultimately pervert the legislative process. The passage of legislation frequently depends on the sponsor's explanation of the purpose and scope of the proposed bill. Congress could not fulfill its function (and its legislative record would become meaningless) if a sponsor's statements were presumed to state anything other than the legislator's actual intent.

[35] As this Court has stated on other occasions, legislation must "be treated as a working instrument of government and not merely

posal became law, his purpose would have been fully effectuated because the Treasury Department would have considered the legislative history and applied the statute in accordance with the legislature's intent. Senator Reed's purpose would have been thwarted only if (as in the present case, see note 34, *supra*) a court applied the statute without regard to the proponents' professed purposes. Finally, Senator Reed himself expressed a narrow reading of the existing law, stating that its purpose was to protect the American trade-mark owner "against importations of articles which have been stamped with his mark without his consent" (71 Cong. Rec. 3873 (1929)).[36]

In sum, we submit that it is not clear that Congress had any understanding or intention as to the "precise

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as a collection of English words." *United States* v. *Dotterweich*, 320 U.S. 277, 280 (1943). See, *e.g.*, *Kelly* v. *Robinson*, slip op. 6 ("[i]n expounding a statute, we must * * * look to the provisions of the whole law, and to its object and policy") (quoting numerous cases); see also *Chevron*, 467 U.S. at 861 ("the meaning of a word must be ascertained in the context of achieving particular objectives").

[36] The court suggests that "[b]ecause Senator Reed was a *proponent* of the effort to strip American trademark owners of the privilege of consenting to imports, logically the phrase 'without his consent' in his remarks modifies 'importations' rather than 'stamped with his mark'" (Pet. App. 20a-21a n.12 (emphasis in original)). However, logic does not compel (or, strictly speaking) even suggest that reading. Senator Reed could, without internal contradiction, wish to replace a statute that he understood to protect domestic manufacturers from foreign trademark infringement with a statute that prevented domestic manufacturers from relocating abroad. Indeed, that was his apparent intention (see page 25, *supra*). Furthermore, the court's interpretation, when applied in context (see page 26, *supra*), would reduce Senator Reed's statement to an ungrammatical tautology. And finally, even if the court's strained interpretation were correct, it would simply render Senator Reed's statement ambiguous on the precise question presented in this case; it would not provide affirmative support for application of Section 526 in the present situation.

question at issue" (*Chevron*, 467 U.S. at 843), the exclusion of trademarked goods where the owner of the U.S. trademark is not, as in *Katzel*, a U.S. purchaser but an affiliate of the foreign trademark owner. *Chevron* dictates that, under these circumstances, "the question for the court is whether the agency's answer is based on a permissible construction of the statute" (*id.* at 843 (footnote omitted)). As we show in the following section, the Treasury Department's construction of Section 526 is plainly reasonable.

B. The Customs Service Regulation Is A Reasonable Interpretation of Section 526

The 1930 Tariff Act gives the Treasury Department power to ensure that Section 526 is applied in a manner faithful to congressional intent: "the Secretary of the Treasury is authorized to make such rules and regulations as may be necessary to carry out the provisions of this chapter." 19 U.S.C. 1624.[37] This Court has stated that similar broad grants of authority demonstrate that Congress intended to vest "considerable discretion" in the agency. *SEC* v. *Jerry T. O'Brien, Inc.*, 467 U.S. 735, 745 (1984). The Court, in turn, has developed a "well established" standard for judging the agency's action, *Mourning* v. *Family Publications Service, Inc.*, 411 U.S. 356, 369 (1973), stating (*ibid.* (footnote omitted)):

> Where the empowering provision of a statute states simply that the agency may "make . . . such rules and regulations as may be necessary to carry out the provisions of this Act," we have held that the validity of a regulation promulgated thereunder will

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[37] The Treasury Department has authorized the Customs Service to formulate proposed regulations but retains ultimate authority to approve or reject those proposals. See Treas. Dep't Order No. 165, Revised, U.S. Customs Service, *Customs Regulations of the United States* TO-1 (1985). Here, Treasury specifically approved the pertinent regulation under the authority of 19 U.S.C. 1624. See 19 C.F.R. 133.21; 37 Fed. Reg. 20677, 20678 (1972).

> be sustained so long as it is "reasonably related to the purposes of the enabling legislation." *Thorpe* v. *Housing Authority of the City of Durham*, 393 U.S. 268, 280-281 (1969).

See, *e.g.*, *FCC* v. *Schreiber*, 381 U.S. 279, 292 (1965); *American Trucking Ass'ns*, 344 U.S. at 308-312; *Norwegian Nitrogen Co.* v. *United States*, 288 U.S. 294, 321-322 (1933).

In the present case, the Treasury Department cannot fulfill its statutory responsibility by approaching Section 526 on a "purely linguistic level" (*Riverside Bayview Homes*, slip op. 10).[38] Here, as in *Riverside*, such a "simplistic response" does justice neither to the problems faced by the agency in defining the scope of its regulatory mandate, nor to the realities of its enforcement responsibilities (*ibid.*). The Treasury Department must necessarily "look to the legislative history and underlying policies of its statutory grants of authority" (*ibid.*). The resulting Customs Service regulation represents a conscientious and reasonable attempt to fulfill the apparent intent of Congress. There can, we think, be no serious dispute that the regulation is "reasonably related to the purposes of the enabling legislation."

As we have observed, the legislative history of Section 526 does not explain the statute's scope and purposes in a clear, or even consistent manner, but the legislative debates do confirm two points: first, Congress wished to protect Americans citizens who purchase foreign trademarks for domestic use (see pages 18-20, *supra*); and second, Congress had no understanding that it was providing a mechanism to help foreign or multinational firms enforce exclusive U.S. distribution arrangements (see pages 20-23 and note 26, *supra*). The Customs Service regulation, set forth at 19 C.F.R. 133.21, pro-

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[38] In *Riverside*, this Court concluded that the Army Corps of Engineers could reasonably treat adjacent wetlands as "waters of the United States" (slip op. 9-13).

vides the protection Congress sought to provide while excluding cases that, as best the agency could determine, Congress had no wish to reach.

The Customs Service regulation provides full protection for an American company that, like the plaintiff in *Katzel*, purchases a trademark from its foreign owner for domestic use. If an unrelated American company acquires the trademark from the foreign trademark owner (and complies with Section 526's registration and filing requirements), the Customs Service will exclude articles "bearing a trademark identical with" the acquired mark (see 19 C.F.R. 133.21). Thus, the regulation serves the basic objective that Congress expressed throughout the debate.[39]

The Customs Service regulation provides, however that Section 526 is inapplicable when the "foreign and the U.S. trademark * * * are owned by the same person or business entity" or when the "foreign and domestic trademark * * * owners are parent and subsidiary companies or are otherwise subject to common ownership or control." 19 C.F.R. 133.21(c)(1)-(2).[40] That exception

[39] As we have previously noted, Section 526's sponsors suggested that their provision was necessary to protect American purchasers of trademarks when "foreigners deliberately violate the property rights of those to whom they have sold these trade-marks by shipping over to this country goods under those identical trademarks" (62 Cong. Rec. 11603 (1922) (Sen. Sutherland)). The Treasury Department has chosen to apply the import exclusion even when a third party, rather than the foreign trademark owner, is the exporter. That choice is certainly reasonable given that a third party apparently originated the exports in *Katzel*. See page 15, *supra*. That situation was not discussed in the congressional debate, but no one disputes that the Treasury Department could reasonably conclude that Congress wished to apply Section 526 in that case.

[40] Customs regulations further provide: "(1) 'Common ownership' means individual or aggregate ownership of more than 50 per cent of the business entity; and (2) 'Common control' means effective control in policy and operations and is not necessarily synonymous with common ownership" (19 C.F.R. 133.2(d)).

is, first of all, consistent with Congress's dominant objective. The cases governed by the exception (which we describe collectively as "common control" situations, see page 4, *supra*) are plainly distinguishable from the cases with which Congress was explicitly concerned— situations where an independent American company purchases U.S. trademark rights from the foreign owner of the mark.

For example, it makes little sense to speak of a foreign trademark owner "deliberately violat[ing] the property rights" (62 Cong. Rec. 11603 (1922) (Sen. Sutherland)) of its domestic subsidiary. More generally, protecting the legitimate expectations of a U.S. purchaser of a trademark against the foreign trademark owner (and other firms that are distributing goods manufactured by the foreign trademark owner) is altogether different from protecting a corporate group that *includes* the foreign trademark owner against parallel importation of the group's goods.[41]

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[41] COPIAT asserts that the price differentials that spur parallel importation arise from (1) genuine differences in quality (including freshness, availability of service, etc.) and (2) promotional expenditures by the authorized distributor, on which the parallel importer obtains a "free ride" (see page 4, *supra*). As to point (1), a contrary argument (whose validity the Court need not decide) is that if a corporate group needs protection from U.S. sales of genuine but different quality merchandise, the foreign manufacturer can place distinguishing labels on the goods sold to or through the authorized U.S. distribution network. See also *FTC Comments* 2 (stating that "[i]f gray market imports pose consumer deception problems, these problems already fall within the jurisdiction of the Commission under Section 5 of the [Federal Trade Commission] Act"). As to point (2), a contrary argument (whose validity, again, the Court need not decide) is that in the case where the foreign and U.S. trademark owners are the same or commonly owned, *that group* is not necessarily harmed if the authorized distributor's promotional activities increase U.S. sales of other genuine goods. K mart and 47th Street Photo, of course, challenge the premise that quality differences and free riding,

Conversely, if Section 526 were applied in common control situations, the statute would create a legal vehicle by which a foreign or multinational trademark owner could enforce an exclusive distributorship conferred on the U.S. branch or member of the corporate group. The Lenroot-McCumber colloquy and the subsequent conference revision of Section 526 (see pages 21-22, *supra*) suggest that Congress certainly had no intention to provide such a vehicle and would have wanted to prevent such practices.

The Customs Service regulation also states that Section 526 is inapplicable when the imported item bears a trademark "applied under the authorization of the U.S. owner" (19 C.F.R. 133.21(c)(3)). That provision serves to disinguish another "common control" situation that is quite different from the *Katzel* problem. When the U.S. trademark owner authorizes the use of his mark overseas, he may be able, by contractual arrangements, to prevent goods manufactured by the foreign licensee from entering the U.S. and competing with his own. But to the extent that he cannot, there is no evidence that Congress intended that Section 526 would protect him from foreign competition resulting from his own licensing. Once again, the Customs Service regulation represents a reasonable attempt to effectuate the dominant congressional goals.

In short, the Customs Service regulation is fully consistent with Congress's apparent intent. It identifies and advances the primary congressional purposes that motivated the formulation and passage of Section 526. The regulation can properly be characterized as "necessary to carry out the provisions of this chapter" (19 U.S.C. 1624). It is, beyond question, " 'reasonably related to the

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rather than price discrimination against U.S. consumers, are the spur to parallel imports. All of these matters are quite distinct from the problem at which Section 526 was aimed.

purposes of the enabling legislation.'" *Mourning*, 411 U.S. at 369 (quoting *Thorpe* v. *Housing Authority of the City of Durham*, 393 U.S. 268, 280-281 (1969)).[42]

C. The Treasury Department's Interpretation Is Entitled To Particular Deference In This Instance

This Court has "long recognized that considerable weight should be accorded to an executive department's construction of a statutory scheme that it is entrusted to administer" (*Chevron*, 467 U.S. at 844).[43] There is special cause for deference in this instance. First, the Treasury Department has adhered to its basic interpretation of Section 526 since 1936, more than 50 years. Congress, during that period, has repeatedly been informed of the agency's interpretation and has declined to alter the statute. And second, domestic retailers have placed substantial reliance on the agency's interpretation. As the Second Circuit stated, the decision whether to revise this established regulatory policy "is a matter for the legislative or executive branch and not for the judiciary."

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[42] It is noteworthy that the Treasury Department's interpretation narrows, rather than expands, the reach of Section 526. This is not a case where the agency has attempted "to expand its jurisdiction beyond the boundaries established by Congress" (*Board of Governors* v. *Dimension Financial Corp.*, No. 84-1274 (Jan. 22, 1986), slip op. 12 n.6). Cf. *Heckler* v. *Chaney*, 470 U.S. 821, 832 (1985) ("when an agency refuses to act it generally does not exercise its *coercive* power over an individual's liberty or property rights, and thus does not infringe upon areas that courts are often called upon to protect" (emphasis in original)). There is good reason for the Treasury Department to avoid an expansive interpretation of Section 526. As we have already noted (see page 23, *supra*), its broad language was apparently the product of hasty draftsmanship rather than a deliberate intent to achieve broad objectives.

[43] "An agency's expertise is superior to that of a court when a dispute centers on whether a particular regulation is 'reasonably necessary to effectuate any of the provisions or to accomplish any of the purposes' of the Act the agency is charged with enforcing; the agency's position, in such circumstances, is therefore due substantial deference." *CFTC* v. *Schor*, No. 85-621 (July 7, 1986), slip op. 11.

Olympus Corp. v. *United States*, 792 F.2d 315, 321 (1986); accord *Lever Bros. Co.* v. *United States*, Civ. No. 86-3151 (D.D.C. Jan. 21, 1987), slip op. 7.

1. This Court generally "accord[s] great weight to the longstanding interpretation placed on a statute by an agency charged with its administration." *NLRB* v. *Bell Aerospace*, 416 U.S. 267, 275 (1974). See, *e.g.*, *FDIC* v. *Philadelphia Gear Corp.*, slip op. 11-13. As the district court recognized (Pet. App. 48a), this is certainly such a case. The Treasury Department first explicitly adopted its interpretation more than 50 years ago. This interpretation, retained through nine presidential administrations, has occasionally sparked controversy and has shown some expansion and contraction over that past half-century. Nevertheless, the basic concept has been steadfastly followed. "This longstanding and consistent interpretation is entitled to considerable weight." *Zenith Radio Corp.* v. *United States*, 437 U.S. 443, 450 (1978).

The Treasury Department explicitly adopted a "same company" exception in 1936, invoking its authority under Sections 526 and 624 of the 1930 Tariff Act and Section 27 of the Trademark Act of 1905. T.D. 48537, 70 Treas. Dec. 336-337 (J.A. 27-30).[44] Under this exception, Section 526's protection was denied if there existed a substantial identity between the foreign and domestic trademark owners. That interpretation was retained when the Treasury Department reissued the regulation in 1937

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[44] The regulation prohibited entry of articles bearing a trademark that "copies or simulates" a domestic trademark. Art. 518(a) (J.A. 27). It further provided that a genuine foreign trademark "shall be deemed * * * to copy or simulate" a domestic trademark. Art. 518(b) (J.A. 28). It then stated that an article shall not be deemed to copy or simulate the domestic trademark if the foreign and domestic marks "are owned by the same person, partnership, association or corporation." *Ibid.* Prior to 1936, the Treasury Department's regulations governing Section 526 simply paraphrased the statute. See J.A. 17-26. There is no record of the Customs Service's practices during that period.

(J.A. 31-38), in 1943 (J.A. 39-44), and 1947 (J.A. 45-51).[45] The Treasury Department maintained that interpretation, without change, for 17 years.[46]

In 1953, the Treasury Department modified its regulation in response to the passage of the Lanham Act, which superseded the Trademark Act of 1905. See T.D. 53399 (J.A. 55-59). Treasury retained the "same company" exception, but it also added a "related company" exception (borrowing a definition from Section 45 of the Lanham Act, 15 U.S.C. 1127), that would apply when a foreign trademark owner "legitimately controls, or is controlled by," the domestic trademark owner "in respect to the nature and quality of the goods * * * in connection with which the mark is used" (J.A. 56).[47] Treasury

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[45] In 1937, articles 517 to 522 were renumbered as articles 536 to 541. They were renumbered as sections 11.14 to 11.17 in 1943 and retained that designation until 1972.

[46] The court of appeals recognized this consistency, but suggested that the Treasury Department's regulation interpreted only Section 27 of the Trademark Act of 1905, citing a statement by the *United States Tariff Commission* in hearings, conducted in 1944, on legislation that would become the Lanham Act (Pet. App. 24a). That certainly was not (and is not) the view of the *Treasury Department*, the cabinet department that Congress has charged with administration of the statute. The Treasury Department specifically cited Section 526 in issuing and reissuing the regulations (J.A. 27, 39, 45-46). And it certainly was not (and is not) the view of the Commissioner of Customs who, in subsequent correspondence to Senator Douglas (J.A. 52-54), stated that Section 526 is inapplicable "if the United States trademark owner and the owner of the foreign rights to the same mark are one and the same person" (J.A. 53). He further noted that a "foreign subsidiary or licensee of the United States trade-mark owner is considered to stand in the same shoes as such trade-mark owner" (*ibid.*).

[47] The revised regulation also deleted the prior reference to Section 526, but this change was plainly inadvertent. Contemporary commentators uniformly recognized that the regulation interpreted Section 526. See Note, *Trade-Mark Infringement: The Power of an American Trade-Mark Owner to Prevent the Importation of the Authentic Product Manufactured by a Foreign Company*, 64 Yale

retained that exception until 1959 (see T.D. 54932 (J.A. 60-61)), when it sought legislation that would expressly deny protection to a broader class of "affiliated companies" as well.[48] Congress failed to act on that legis-

L.J. 557 (1955); Derenberg, *The Seventh Year of Administration of the Lanham Trade-Mark Act of 1946*, 44 Trademark Rep. 991 (1954); *Important Changes in the Customs Regulations Concerning Recordation of Trade-Marks and Trade Names*, 44 Trademark Rep. 131, 134 (1954).

[48] The reason for the 1959 regulatory revision is somewhat complex, but does not undermine the consistency of the Treasury Department's interpretation. Shortly after the 1953 regulatory revision, the Treasury Department sought legislation that would confirm its regulations and extend the exception to include all affiliated companies. See S. 2540, 83d Cong., 2d Sess. (1954) (the Wiley bill); H.R. 9476, 83d Cong., 2d Sess. (1954) (the Byrnes bill); see also S. Rep. 2266, 83d Cong., 2d Sess. 9 (1954); *Hearing on S. 2540 before a Subcomm. of the Senate Comm. on the Judiciary*, 83d Cong., 2d Sess. 93-97 (1954); *Hearings on H.R. 9476 Before the House Comm. on Ways & Means*, 83d Cong., 2d Sess. 6, 9 (1954); see generally Note, *supra*, 64 Yale L.J. at 560-561; Derenberg, *supra*, 44 Trademark Rep. at 998. The legislation was not enacted. Meanwhile, the Justice Department's Antitrust Division brought an action urging a judicial construction of Section 526 that would achieve essentially the same result. See *United States* v. *Guerlain*, 155 F. Supp. 77 (S.D.N.Y. 1957), vacated and remanded, 358 U.S. 915 (1958), dismissed, 172 F. Supp. 107 (S.D.N.Y. 1959). See also Recent case, 71 Harv. L. Rev. 564 (1958); Derenberg, *supra*, 44 Trademark Rep. at 998; Note, *supra*, 64 Yale L.J. at 560-561. The district court accepted the Antitrust Division's construction (155 F. Supp. at 80); however, Solicitor General Rankin declined to defend that judgment in this Court. See *Guerlain, Inc.* v. *United States*, No. 24 (1958 Term), Motion to Vacate Judgments. He stated that the Antitrust Division's interpretation "is permissible in the light of the relevant legislative history" (*id.* at 7), but added that Customs found itself "legally contrained to grant the claim of statutory protection invoked by the appellants" (*ibid.*), presumably because the agency either had concluded that the appellants did not fall within the "related company" exception or had lacked sufficient information to make that regulatory determination. See Atwood, *Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs*, 59 Trademark Rep. 301, 307 (1969); see also *Developments in the Law: Trademarks and Un-*

lation. Meanwhile, Customs continued, under its "same company" exception, to deny Section 526's protection to wholly owned subsidiaries and companies subject to common corporate control.[49] In 1972, following notice and public comment (35 Fed. Reg. 19269 (1970)),[50] the Treasury Department issued the present Customs Service regulation, which clarifies and continues the practices established over 50 years ago.

Thus, while there has been some change in the definition of the exception, the Treasury Department's regulations have at all times during the past one-half century denied the protection of Section 526 where the foreign and domestic trademark owners are the same or closely related firms. For 17 years, the Treasury Department permitted importation of trademarked goods when the

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fair Competition, 68 Harv. L. Rev. 814, 914 (1955). Solicitor General Rankin proposed that, in light of this conflict, this Court should vacate the judgments and the government would seek legislation "to make it clear that trademark protection is not available to prohibit the importation of a product legitimately marked by an affiliate of the trademark owner" (Motion to Vacate Judgments at 7-8). The Court followed that suggestion and the district court dismissed the actions (172 F. Supp. at 108). The government submitted its promised legislation the following year. H.R. 7234, 86th Cong., 1st Sess. (1959) (the Celler bill). Meanwhile, the Treasury Department dropped the "related company" exception from its regulations (while retaining the "same company" exception), apparently in response to the pending legislation and difficulties in applying that standard (J.A. 60).

[49] See T.D. 69-12 (1968) (J.A. 67); Letter from Deputy Commissioner Flinn to Felix V. Levitan (Mar. 15, 1963) (J.A. 63-64); Letter from Deputy Commissioner Flinn to Walter A. Slowinski (July 2, 1962) (J.A. 62); see also Atwood, *supra*, 59 Trademark Rep. at 310 ("Related companies may or may not be denied full protection depending on ownership and control as viewed against the background of Bourjois v. Katzel, Bourjois v. Aldridge, and Section 526." (footnotes omitted)); see generally *id.* at 311-317.

[50] Apparently, neither the private petitioners nor COPIAT or any of its members (see Br. in Opp. 1a-2a), participated in the rulemaking (see J.A. 75-76).

foreign and domestic trademark owners were the "same person," a phrase understood to include parent and subsidiary. In the following five-year period, the regulation contained the somewhat broader term "related company." For the last 27 years, the Treasury Department has followed an interpretation that permits importation in common ownership or control situations.

Congress has revisited Section 526 on numerous occasions over the past fifty years and has never stated any disagreement with the Treasury Department's regulations.[51] Congress acknowledged the present Customs Service regulation, with apparent approval, when it passed the Customs Procedural Reform and Simplification Act

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[51] Congress revisited Section 526 on a recurring basis from the 1940s to the present. It considered the provision in hearings preceding passage of the Lanham Act, where the U.S. Tariff Commission described (albeit incorrectly, see note 46, *supra*) the Treasury Department's regulations. See *Hearings on H.R. 82 Before a Subcomm. of the Senate Comm. on Patents*, 78th Cong., 2d Sess. 79-91 (1944). Congress addressed Section 526 again in the Act of July 22, 1954, ch. 558, 68 Stat. 497 *et seq.*, which, among other matters, exempted the Virgin Islands from Section 526's provisions. See 48 U.S.C. 1643. As we have already mentioned (note 48, *supra*), Congress visited Section 526 again that year when it considered legislation addressing "affiliated companies" under the Wiley and Byrnes bills, and in 1959 when it considered similar legislation under the Celler bill. In 1959, Congress also considered (but did not report or enact) a bill that would have prohibited the sale of goods of foreign manufacture bearing U.S. trademarks. See H.R. 7967, 86th Cong., 1st Sess. (1959) (the Toll bill). And in 1968, Congress considered, but did not pass, a bill that would have repealed Section 526 completely. See S. 3713, 90th Cong., 2d Sess. (the McClellan bill). This Court has noted that deference is "particularly appropriate where * * * an agency's interpretation involves issues of considerable public controversy and Congress has not acted to correct any misperception of its statutory objectives." *United States* v. *Rutherford*, 442 U.S. 544, 554 (1979); see also *Haig* v. *Agee*, 453 U.S. 280, 301 (1981); *Red Lion Broadcasting Co.* v. *FCC*, 395 U.S. 367, 381-382 (1969). Section 526's history suggests, at a minimum, that congressional inaction cannot be attributed to ignorance of the issue.

of 1978 (CPRSA), Pub. L. No. 95-410, 92 Stat. 888 *et seq.*, and the Trademark Counterfeiting Act of 1984 (TCA), Pub. L. No. 98-473, Ch. XV, 98 Stat. 2178 *et seq.* Under these circumstances, the Treasury Department's interpretation is entitled to special deference. See, *e.g.*, *CFTC* v. *Schor*, No. 85-621 (July 7, 1986).[52]

The CPRSA amended Section 526 to create the so-called "tourist" exception to the section's import prohibitions. The courts had long construed Section 526 to exclude foreign manufactured goods bearing a U.S. trademark regardless of whether the importer was a commercial enterprise or an American tourist returning from abroad. See *Sturges*, 48 F.2d at 1037. The CPRSA permitted American tourists to return from abroad with limited quantities of trademarked merchandise for their personal use. See 19 U.S.C. 1526(d). The House report describing that amendment specifically alluded to the Customs Service regulation, stating:

> This section has been consistently interpreted by the United States Customs Service for the past 20 years as excluding from protection foreign-produced merchandise bearing a genuine trademark created, owned, and registered by a citizen of the United States if the foreign producer has been authorized by the American trademark owners to produce and sell abroad goods bearing the recorded trademark.

H.R. Rep. 95-621, 95th Cong., 1st Sess. 27 (1977). Congress again took note of the Treasury Department's interpretation when it enacted the TCA. That statute established criminal sanctions and other remedies "to help combat the mushrooming traffic in counterfeit goods and services." S. Rep. 98-526, 98th Cong., 2d Sess. 2 (1982).

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[52] See also, *e.g.*, *Young* v. *Community Nutrition Institute*, No. 85-664 (June 17, 1986), slip op. 9; *FDIC* v. *Philadelphia Gear Corp.*, No. 84-1972, slip op. 11; *United States* v. *Rutherford*, 442 U.S. 544, 554 n.10 (1979); *Chemehuevi Tribe* v. *FPC*, 420 U.S. 395, 410 (1975); *NLRB* v. *Bell Aerospace Co.*, 416 U.S. at 274-275.

However, the Senate Committee on the Judiciary was careful to emphasize that the legislation "does not include within its coverage so-called 'gray market' goods" (*id.* at 3). The Committee stated (*ibid.*):

> The importation of such goods is legal under certain circumstances. For example, the Treasury Department has long interpreted section 526 of the Tariff Act of 1930 * * * to permit the importation of such goods when the foreign and domestic users of the trademark are affiliated through common ownership and control. *See* 19 C.F.R. 133.21(c).

2. It is not surprising, given the Treasury Department's longstanding interpretation of Section 526, an interpretation specifically noted by the Congress, that a large segment of the domestic retailing industry has placed substantial investment-backed reliance on the Customs Service regulation. The existence of such reliance interests provides another reason why the Treasury Department's interpretation is entitled to particular deference. See *Zenith Radio Corp.* v. *United States*, 437 U.S. at 457.

The Customs Service regulation was issued in its present form (after notice and comment) in 1972 and has remained unchanged for 15 years. During that period, many domestic retailers, such as K mart Corporation and 47th Street Photo, have built substantial businesses and associated consumer goodwill based on the availability of parallel imports. The actual volume of parallel imports may be open to debate, but there can be no doubt that many domestic retailers (and their customers) now rely on parallel imports as their preferred source for foreign-made merchandise.

If this Court were to invalidate the Customs Service regulation, that segment of the domestic retailing industry would be seriously injured. Many such retailers, including small enterprises that have made substantial

investments in justifiable reliance on the regulation, could conceivably be forced out of business. "In light of these substantial reliance interests, the longstanding administrative construction of the statute should 'not be disturbed except for cogent reasons.'" *Zenith Radio Corp.*, 437 U.S. at 457-458 (quoting *McLoren* v. *Fleischer*, 256 U.S. 477, 481 (1921)); accord *Udall* v. *Tallman*, 380 U.S. 1, 18 (1965).

It is particularly appropriate for the Court not to disturb legitimate commercial expectations in this instance. Numerous lower courts have upheld the Customs Service regulation.[53] And both Congress and the Administration are reviewing the government's present policy in this area and are attempting to learn more about the parallel importation phenomenon.[54] Thus, COPIAT's

[53] See note 11, *supra*. The district courts have generally upheld the Customs Service regulation as a reasonable interpretation of Section 526 (Pet. App. 48a; *Olympus Corp.*, 627 F. Supp. at 922; *Vivitar Corp.*, 593 F. Supp. at 436; see also *Guerlain*, 155 F. Supp. at 83), while the courts of appeals have sustained the regulation as a legitimate exercise of enforcement discretion (see *Olympus Corp.*, 792 F.2d at 320; *Vivitar Corp.*, 761 F.2d at 1571). We do not believe that the Customs Service regulation should be viewed as based solely on enforcement considerations. It does, however, reflect an exercise of enforcement discretion in the sense that it represents an agency's considered judgment that, absent clearer guidance from Congress, the agency should devote its enforcement resources to the problem that the legislative history indicates was Congress's specific concern.

[54] Last year, Congress commenced consideration of legislation that would squarely address the issue. Senator Chafee introduced a bill that would amend Section 526 to incorporate the Customs Service regulation. See S. 2614, 99th Cong., 2d Sess. (1986); 132 Cong. Rec. S8709, S8741-S8743 (daily ed. June 26, 1986). The Senate promptly held hearings on this legislation in which both the private petitioners and COPIAT participated. See *Gray Market Imports: Hearing on S. 2614 Before the Subcomm. on International Trade of the Senate Comm. on Finance*, 99th Cong., 2d Sess. (1986). We expect that a similar bill, as well as alternative parallel import legislation, will be introduced this year. And, as we

members could ultimately receive the protection they demand as a result of a congressional or administrative policy judgment. But if this Court invalidates the Customs Service regulation, and Congress later concludes that the regulation states the appropriate policy, it may be impossible for Congress to restore the status quo ante. See 132 Cong. Rec. S8742 (daily ed. June 26, 1986) (Sen. Chafee).

In sum, the Treasury Department has acted well within its powers under 19 U.S.C. 1624 in issuing the Customs Service regulation. That longstanding regulation reasonably interprets and implements Congress's purposes in enacting Section 526 of the 1930 Tariff Act. This Court should give particular deference to the Treasury Department's expert judgment in this complex and sensitive area.

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have already noted (page 5, *supra*), the Administration is presently reviewing policy options with respect to parallel imports. Many affected parties, including K mart, 47th Street Photo and COPIAT, are participating in the legislative and administrative review. Congress and the Executive Branch, unlike the courts, can evaluate competing arguments from both a policy and a legal perspective and can then determine whether claims of price discrimination or "free riding" are valid.

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted.

CHARLES FRIED
Solicitor General

RICHARD K. WILLARD
Assistant Attorney General

LOUIS R. COHEN
Deputy Solicitor General

JAMES M. SPEARS
Deputy Assistant Attorney General

JEFFREY P. MINEAR
Assistant to the Solicitor General

DAVID M. COHEN
VELTA A. MELNBRENCIS
ROBERT V. ZENER
ROBERT K. RASMUSSEN
Attorneys

ROBERT M. KIMMITT
General Counsel

LESLIE A. HULSE
MICHAEL LEVITIN
Attorneys
Department of the Treasury

MICHAEL SCHMITZ
Chief Counsel

ALFONSO ROBLES
Attorney
United States Customs Service

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ADDENDUM

STATUTE AND REGULATION INVOLVED

Section 526 of the Tariff Act of 1930, 19 U.S.C. 1526, provides in pertinent part:

§ 1526. *MERCHANDISE BEARING AMERICAN TRADE-MARK*

(a) *Importation prohibited.* Except as provided in subsection (d), it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States, under the provisions of sections 81 to 109 of Title 15, and if a copy of the certificate of registration of such trademark is filed with the Secretary of the Treasury, in the manner provided in section 106 of said Title 15, unless written consent of the owner of such trademark is produced at the time of making entry.

(b) *Seizure and forfeiture.* Any such merchandise imported into the United States in violation of the provisions of this section shall be subject to seizure and forfeiture for violation of the customs laws.

(c) *Injunction and damages.* Any person dealing in any such merchandise may be enjoined from dealing therein within the United States or may be required to export or destroy such merchandise or to remove or obliterate such trademark and shall be liable for the same damages and profits provided for wrongful use of a trademark, under the provisions of section 81 to 109 of Title 15.

(d) (1) *Exemptions.* The trademark provisions of this section and section 1124 of Title 15, do not apply to the importation of articles accompanying any person arriving in the United States when such articles are for his personal use and not for sale if (A) such articles are within the limits of types and quantities determined by the Secretary pursuant to paragraph (2) of this subsection, and (B) such person has not been granted an exemption under this subsection within thirty days immediately preceding his arrival.

(2) *Publication in Federal Register.* The Secretary shall determine and publish in the Federal Register lists of the types of articles and the quantities of each which shall be entitled to the exemption provided by this subsection. In determining such quantities of particular types of trade-marked articles, the Secretary shall give such consideration as he deems necessary to the numbers of such articles usually purchased at retail for personal use.

(3) *Forfeitures.* If any article which has been exempted from the restrictions on importation of the trade-mark laws under this subsection is sold within one year after the date of importation, such article, or its value (to be recovered from the importer), is subject to forfeiture. A sale pursuant to a judicial order or in liquidation of the estate of a decedent is not subject to the provisions of this paragraph.

(4) *Rules and regulations.* The Secretary may prescribe such rules and regulations as may be necessary to carry out the provisions of this subsection.

The Customs Service regulation 19 C.F.R. 133.21 provides:

§ 133.21 *RESTRICTIONS ON IMPORTATION OF ARTICLES BEARING RECORDED TRADEMARKS AND TRADENAMES.*

(a) *Copying or simulating marks or names.* Articles of foreign or domestic manufacture bearing a mark or name copying or simulating a recorded trademark or trade name shall be denied entry and are subject to forfeiture as prohibited importations. A "copying or simulating" mark or name is an actual counterfeit of the recorded mark or name or is one which so resembles it as to be likely to cause the public to associate the copying or simulating mark with the recorded mark or name.

(b) *Identical trademark.* Foreign-made articles bearing a trademark identical with one owned and recorded by a citizen of the United States or a corporation or association created or organized within the United States are subject to seizure and forfeiture as prohibited importations.

(c) *Restrictions not applicable.* The restrictions set forth in [paragraph (b) of] this section do not apply to imported articles when:

> (1) Both the foreign and the U.S. trademark or trade name are owned by the same person or business entity;
>
> (2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control (see §§ 133.2(d) and 133.12(d));
>
> (3) The articles of foreign manufacture bear a recorded trademark or trade name applied under the authorization of the U.S. owner;
>
> (4) The objectionable mark is removed or

obliterated prior to importation in such a manner as to be illegible and incapable of being reconstituted, for example by:

(i) Grinding off imprinted trademarks wherever they appear;

(ii) Removing and disposing of plates bearing a trademark or trade name;

(5) The merchandise is imported by the recordant of the trademark or trade name or his designate;

(6) The recordant gives written consent to an importation of articles otherwise subject to the restrictions set forth in paragraphs (a) and (b) of this section, and such consent is furnished to appropriate Customs officials; or

(7) The articles of foreign manufacture bear a recorded trademark and the personal exemption is claimed and allowed under § 148.55 of this chapter.

(d) *Exceptions for articles bearing counterfeit trademarks.* The provisions of paragraph (c)(4) of this section are not applicable to articles bearing counterfeit trademarks at the time of importation (see § 133.24).

(Sec. 42, 60 Stat. 440, sec. 526, 46 Stat. 741; 15 U.S.C. 1124, 19 U.S.C. 1526.)

[T.D. 72-266, 37 FR 20678, Oct. 3, 1972, as amended by T.D. 79-159, 44 FR 31968, June 4, 1979]

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